

Testimony of
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Environmental Defense Fund
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regarding
The U.S. Climate Action Partnership
submitted to
The U.S. House of Representatives
Committee on Energy and Commerce

Mr. Chairman and Members of the Committee:

Thank you for your invitation to testify today as a member of the United States Climate Action Partnership, or USCAP.

Environmental Defense Fund (EDF) believes that USCAP has played and will continue to play a key role in building the emerging consensus behind strong climate protection legislation. There is no more important environmental legislation that this Committee will ever consider than comprehensive climate change policy.

EDF is a leading national nonprofit organization representing more than 500,000 members. Since 1967, we have linked science, economics and law to create innovative, equitable and cost-effective solutions to society's most urgent environmental problems. EDF is guided by scientific evaluation of environmental problems, and works to create solutions that win lasting economic and social support because they are nonpartisan, cost-effective and fair. EDF has more than 380 scientists, attorneys, other professionals and support staff, including more Ph.D. scientists and economists working in environmental advocacy than at any similar organization. EDF's total program and supporting services expenditures for fiscal 2008 reached \$100.8 million.

In January 2007, USCAP launched its landmark report, titled A Call for Action, which lays out a framework for climate protection legislation. Today USCAP includes more than 2 dozen businesses and leading environmental organizations. USCAP recognizes that the United States faces an urgent need to reinvigorate our nation's economy, make the country more energy secure, and take meaningful action to slow, stop and reverse greenhouse gas emissions to address climate change.

USCAP supports enactment of an economy-wide approach which includes a well-crafted cap and trade program that places specified limits on GHG emissions. Cost-containment measures, complementary policies and measures to supplement the cap and trade program, and a fully funded federal technology research, development,

demonstration, and deployment program for climate-friendly technologies constitute other key components recommended by USCAP.

Thoughtful and comprehensive climate policy will help secure our economic prosperity and provide American businesses and the nation's workforce with opportunity to innovate and succeed. Indeed, a cap could amplify the effect of the stimulus package with the infusion of private capital investment.

Recent debate surrounding the drafting of an economic stimulus package early in the 111th Congress has included discussion of a substantial energy investment. We agree that such efforts can and should be made as early as possible. Additionally, a central tenet of our Call for Action is that in order to effect the change needed throughout the economy, an economy-wide cap-and-trade system is essential. When combined with complementary measures, the resulting new vision and policy direction will spur the innovation through which America has always excelled. When given the proper tools, incentives and market signals, the American entrepreneurial spirit will lead to sustainability solutions required to meet our many economic, energy, environmental and national security challenges.

Today I am here to talk about cost control measures. As USCAP said in the Call for Action, cost control measures are policies designed to provide capped entities with greater confidence that their cost will be limited and flexibility to manage emission reduction compliance costs. USCAP believes the most powerful cost control measure is a robust cap and trade program since markets do the best job of controlling costs over time. A cap and trade program will unleash entrepreneurs to find new low-carbon technologies and better ways of reducing emissions. With such a program we are creating performance based demand across the board, across the whole economy, to reduce greenhouse gases.

Emission offsets—that is, activities that reduce GHG emissions that are not included in the cap—are a critical component of the USCAP vision. Ensuring the high quality of offsets is essential; any offset must be environmentally additional, verifiable, permanent and enforceable. USCAP believes that offsets can play a key role in limiting and managing compliance costs.

Any cost control measures must be designed to enable a long-term price signal that is stable and high enough to drive investment in low- and zero-emitting technologies. In addition, any cost-control option considered by Congress must ensure the integrity of the emissions cap over a multi-year period and preserve the market's effectiveness in driving reductions, investment, and innovation. As policy makers weigh additional cost control options, it is important for them to consider who and what portions of the economy are impacted, the time duration of the impact and remedy, international competitiveness, the implications for international emissions trading, and how the measure impacts the price signal necessary to stimulate investment and technological innovation.

In the spring of 2008, USCAP issued a Cost Containment Discussion Paper (not a consensus document) that laid out detailed principles that should be considered in designing cost containment measures. In this paper, USCAP states that any explicit cost containment measures should be based on the following principles:

- Measures should be predictable, effective and easy to administer;
- They should achieve the legislation's overall GHG emission budget and should ensure that needed reductions are achieved in a timely manner;
- They should, to the maximum extent possible, provide objective, clear and predictable information about the factors influencing future allowance prices;
- They should not supplant or interfere with the development of commercially available financial tools and strategies for managing volatility and risk;
- They should not create opportunity for manipulation of market prices by market participants;
- The use and impact of several of the measures should be designed to diminish over time, to allow market forces to spur investment in the most cost efficient, long-term solutions for reducing GHG emissions; and
- In the context of the entire program (inclusive of complementary measures), the measures should not encourage near-term investments in significant new high-emitting sources that would "lock in" high carbon emission streams and make future emission reductions even more difficult to achieve.

I am very pleased that USCAP is announcing on January 15th information on cost containment and offsets, as well as other topics of interest.

USCAP recognizes the challenge for the Committee in crafting comprehensive climate change legislation and USCAP hopes that the Committee will call upon its unique partnership to help sort through these complexities and devise solutions.

Thank you for the opportunity to testify on this very important matter. USCAP looks forward to working with the Committee in the 111th Congress to ensure prompt enactment of national climate protection legislation.